

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

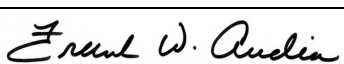
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Wyandotte, Michigan
Department of Municipal Service

Financial Report
September 30, 2007

City of Wyandotte, Michigan

Department of Municipal Service

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Independent Auditor's Report

To the Members of the Municipal
Service Commission
City of Wyandotte, Michigan

We have audited the accompanying financial statements of each major fund of the City of Wyandotte, Michigan Department of Municipal Service (the "Department") as of and for the year ended September 30, 2007, which collectively comprise the Department's basic financial statements. These financial statements are the responsibility of the Department of Municipal Service's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Department's 2006 financial statements and in our report dated March 6, 2007, we expressed an unqualified opinion on the 2006 basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements present only the Department of Municipal Service and are not intended to present fairly the financial position of the City of Wyandotte, Michigan and the results of its income and cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of the City of Wyandotte, Michigan Department of Municipal Service at September 30, 2007 and the results of its income and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and do not express an opinion on it.

To the Members of the Municipal
Service Commission
City of Wyandotte, Michigan

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Department of Municipal Service's financial statements for the year ended September 30, 2006, from which such partial information was derived.

Plante & Moran, PLLC

February 29, 2008

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis

Our discussion and analysis of City of Wyandotte, Michigan Department of Municipal Service's performance provides an overview of the Department's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the Department's financial statements.

Using this Annual Report

The City of Wyandotte, Michigan Department of Municipal Service (the "Department") is a department created by the City of Wyandotte (the "City") that is governed and operated independently from the City by the Municipal Service Commission (the "Commission"). The Commission provides electric, water, cable television, and Internet services to users in the City and accounts for these activities in separate funds. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Department. This is followed by the statement of cash flows, which presents detailed information about the changes in the Department's cash position during the year.

Financial Highlights

Electric Fund

- The Electric Fund's operating revenue increased for the year by approximately 18 percent from last year, due to a significant increase in the power supply recovery charge, and an increase in steam sales to a new steam customer that began in the prior year.
- The Electric Fund's operating expenses increased from last year by approximately 8 percent, primarily due to increases in power production and fuel costs.
- Accordingly, the Electric Fund's operating income was \$2,242,981, compared to an operating loss in the previous year of \$642,029.
- The Department's bond ordinance specifies that the Department's Electric Fund budget provide net revenue that equals or exceeds 110 percent of its annual debt service requirement. The ratio that measures the relationship between the Department's net revenue and its annual debt service requirement is known as the "debt service coverage ratio." While the 110 percent debt service coverage ratio test is prospective, it is important that the Department's actual results yield net revenue that equals or exceeds 110 percent of the annual debt service requirement. The actual debt service coverage ratio for the year exceeded 110 percent (approximately 139 percent for the year ended September 30, 2007).
- Another financial covenant in the Department's bond ordinance requires that actual expenditures of the Department do not exceed budget. For the current year, the Department had to amend its budget in order to comply with this ordinance.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

Water Fund

- The financial performance of the Water Fund remained relatively stable in the current year. Although operating revenue increased by 9 percent, operating expenses also increased by 10 percent causing operating net income to decrease slightly (approximately 2 percent from the prior year).
- Through a planned series of water rate increases, the Water Fund is restoring its working capital position. The Water Fund has been assisted by annual contributions from the City's Tax Increment Financing Authority for water main construction. The current year contribution was approximately \$156,000.
- This year's financial statement reports unrestricted net assets of approximately \$1,281,000 (as compared to only \$813,000 in the prior year). The Commission is continuing to review its rate structure of the water utility, along with other options to improve the financial condition of the Water Fund.

Cable Television Fund

- The Cable Television Fund's operating revenue increased by 6 percent, mainly due to increases in basic cable and cable internet revenues of \$308,000 and \$172,000, respectively.
- Due to an increase in operating expenses of 7 percent, the Cable Television Fund realized an operating net loss of approximately \$179,000.
- The Cable Fund still continues to maintain excess operating cash to retire the debt outstanding on the rebuild of its fiber optic cable network completed in 1999. The restriction of that cash (approximately \$1,267,000) has resulted in a deficit in unrestricted net assets of approximately \$685,000.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table presents condensed information about the Department's financial position compared to the prior year:

	September 30		Change	
	2007	2006	Amount	Percent
Assets				
Current assets	\$ 13,345,174	\$ 8,946,911	\$ 4,398,263	49.16
Restricted assets	14,718,040	16,179,134	(1,461,094)	(9.03)
Property, plant, and equipment	58,997,141	60,477,141	(1,480,000)	(2.45)
Other	2,457,773	3,193,721	(735,948)	(23.04)
Total assets	89,518,128	88,796,907	721,221	0.81
Liabilities				
Current liabilities	12,526,995	9,450,373	3,076,622	32.56
Liabilities payable from restricted assets	4,675,592	4,605,454	70,138	1.52
Long-term debt	42,171,521	46,219,508	(4,047,987)	(8.76)
Total liabilities	59,374,108	60,275,335	(901,227)	(1.50)
Net Assets				
Invested in capital assets - Net of debt	13,148,805	13,318,322	(169,517)	N/A
Restricted assets	11,456,948	11,344,991	111,957	0.99
Unrestricted	5,538,267	3,858,259	1,680,008	43.54
Total net assets	<u>\$ 30,144,020</u>	<u>\$ 28,521,572</u>	<u>\$ 1,622,448</u>	N/A

The following table presents condensed information about the Department's revenues and expenses compared to the prior year:

	Year Ended September 30		Change	
	2007	2006	Amount	Percent
Total operating revenue	\$ 44,919,212	\$ 38,944,940	\$ 5,974,272	15.34
Total operating expenses	42,586,031	39,454,620	3,131,411	7.94
Operating Income (Loss)	2,333,181	(509,680)	2,842,861	(557.77)
Contributions	156,452	81,680	74,772	91.54
Other nonoperating expense	(867,185)	(1,364,235)	497,050	(36.43)
Net Income (Loss)	<u>\$ 1,622,448</u>	<u>\$ (1,792,235)</u>	<u>\$ 3,414,683</u>	(190.53)

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

In 2005, the Department issued two series of revenue bonds. The purposes of the bonds included the construction of a steam line in connection with its agreement with BASF, to reimburse the Electric Fund's working capital for a portion of the turbine repair project completed in 2004, a project related to the purchase and installation of an automatic meter reading system (a joint Electric and Water Fund project that is in process), diesel generators for the power plant's ability to have "black start" capabilities, and other capital related projects. The project which has yet to be completed is the automatic meter reading project.

Economic Factors and Next Year's Rates

The Electric Fund continues to be significantly impacted by fuel and power production costs. A spike in fuel costs in recent years has required the Department to increase the power supply adjustment rider contained in its electric rate structure. As a result, the Department continues to work with a rate consultant to update its cost of service study and electric rate structure in light of the significant changes occurring to fuel costs. The Department has implemented several rate increases in the Water Fund to improve its financial condition and additional rate increases will be necessary to restore its working capital.

Contacting the Department's Management

This financial report is intended to provide our consumers and investors with a general overview of the Department's finances. If you have questions about this report or need additional information, we welcome you to contact the Department's general manager.

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Net Assets

	September 30					
	2007				2006	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total	
Assets						
Current Assets						
Cash and investments (Note 3)	\$ 2,038,292	\$ 1,049,586	\$ 93,975	\$ 3,181,853	\$ 457,741	
Accounts receivable:						
Billed (Note 4)	2,176,646	214,997	485,792	2,877,435	2,714,885	
Construction (Note 4)	636,000	-	-	636,000	636,000	
Unbilled	2,383,671	302,300	-	2,685,971	2,375,971	
Due from other funds	-	1,329,615	-	1,329,615	964,645	
Fuel, materials, supplies, and other inventories	2,269,440	115,893	100,300	2,485,633	1,714,694	
Prepaid insurance and other current assets	49,118	10,268	89,281	148,667	82,975	
Total current assets	9,553,167	3,022,659	769,348	13,345,174	8,946,911	
Noncurrent Assets						
Long-term construction receivable (Note 4)	1,410,000	-	-	1,410,000	2,046,000	
Restricted assets (Note 7)	13,287,754	163,594	1,266,692	14,718,040	16,179,134	
Bond issuance costs (Note 12)	1,047,773	-	-	1,047,773	1,147,721	
Property, plant, and equipment (Note 5)	47,110,725	8,278,878	3,607,538	58,997,141	60,477,141	
Total noncurrent assets	62,856,252	8,442,472	4,874,230	76,172,954	79,849,996	
Total assets	<u>\$ 72,409,419</u>	<u>\$ 11,465,131</u>	<u>\$ 5,643,578</u>	<u>\$ 89,518,128</u>	<u>\$ 88,796,907</u>	
Liabilities and Net Assets						
Current Liabilities						
Current portion of long-term debt (Note 6)	\$ 3,895,000	\$ -	\$ 413,315	\$ 4,308,315	\$ 3,850,000	
Accounts payable	1,978,377	77,018	493,487	2,548,882	1,141,326	
Due to other funds	1,052,497	-	277,118	1,329,615	964,645	
Due to City of Wyandotte - Sewage Disposal (Note 9)	-	1,138,510	-	1,138,510	412,868	
Accrued compensation	224,130	54,718	45,571	324,419	301,894	
Other accrued liabilities	1,210,471	471,832	341,902	2,024,205	1,848,107	
Deferred revenue	-	-	135,656	135,656	147,992	
Customer deposits and other current liabilities	556,593	-	160,800	717,393	783,541	
Total current liabilities	8,917,068	1,742,078	1,867,849	12,526,995	9,450,373	
Liabilities to be Paid from Restricted Assets - Debt service payable						
	4,675,592	-	-	4,675,592	4,605,454	
Long-term Debt - Net of current portion and amount payable from restricted assets (Note 6)						
	40,880,069	-	1,291,452	42,171,521	46,219,508	
Net Assets						
Invested in property, plant, and equipment - Net of related debt	2,967,156	8,278,878	1,902,771	13,148,805	13,318,322	
Restricted (Note 7)	10,026,662	163,594	1,266,692	11,456,948	11,344,991	
Unrestricted (deficit)	4,942,872	1,280,581	(685,186)	5,538,267	3,858,259	
Total net assets	17,936,690	9,723,053	2,484,277	30,144,020	28,521,572	
Total liabilities and net assets	<u>\$ 72,409,419</u>	<u>\$ 11,465,131</u>	<u>\$ 5,643,578</u>	<u>\$ 89,518,128</u>	<u>\$ 88,796,907</u>	

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30				
	2007				2006
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Operating Revenue	\$ 35,363,511	\$ 3,175,743	\$ 6,379,958	\$ 44,919,212	\$ 38,944,940
Operating Expenses					
Production, pumping, and purification	22,072,512	792,388	-	22,864,900	21,066,288
Distribution	1,478,950	571,487	764,465	2,814,902	2,521,069
Cable television royalties	-	-	3,429,451	3,429,451	3,150,460
Customer service	133,934	51,919	89,261	275,114	254,459
Office and administrative	451,919	223,239	413,654	1,088,812	1,061,263
General and miscellaneous	4,439,168	701,956	1,244,705	6,385,829	5,762,334
Transportation	57,896	22,661	17,173	97,730	108,136
Depreciation	4,486,151	543,018	600,124	5,629,293	5,530,611
Total operating expenses	33,120,530	2,906,668	6,558,833	42,586,031	39,454,620
Operating Income (Loss)	2,242,981	269,075	(178,875)	2,333,181	(509,680)
Nonoperating Income (Expenses)					
Gain from sale of asset	28,789	-	-	28,789	46,521
Grant revenue	142,371	-	-	142,371	-
Interest and other income	1,050,754	169,419	182,201	1,402,374	1,345,704
Interest expense	(2,263,062)	-	(77,709)	(2,340,771)	(2,656,512)
Amortization of bond issuance costs	(99,948)	-	-	(99,948)	(99,948)
Total nonoperating income (expenses)	(1,141,096)	169,419	104,492	(867,185)	(1,364,235)
Income (Loss) - Before contribution of fixed assets	1,101,885	438,494	(74,383)	1,465,996	(1,873,915)
Contribution of Fixed Assets	-	156,452	-	156,452	81,680
Net Income (Loss)	1,101,885	594,946	(74,383)	1,622,448	(1,792,235)
Net Assets - Beginning of year	16,834,805	9,128,107	2,558,660	28,521,572	30,313,807
Net Assets - End of year	<u>\$ 17,936,690</u>	<u>\$ 9,723,053</u>	<u>\$ 2,484,277</u>	<u>\$ 30,144,020</u>	<u>\$ 28,521,572</u>

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Cash Flows

	Year Ended September 30				
	2007				2006
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Cash Flows from Operating Activities					
Cash received from customers	\$ 35,145,037	\$ 3,036,874	\$ 6,264,751	\$ 44,446,662	\$ 37,913,217
Cash payments to suppliers for goods and services	(24,125,749)	(429,890)	(4,949,858)	(29,505,497)	(28,875,896)
Cash payments to employees for services	(4,137,726)	(943,599)	(953,210)	(6,034,535)	(5,796,446)
Net cash provided by operating activities	6,881,562	1,663,385	361,683	8,906,630	3,240,875
Cash Flows from Noncapital Financing Activities -					
Interfund borrowings - Net of repayments	211,364	(550,788)	339,424	-	-
Cash Flows from Capital and Related Financing Activities					
Proceeds from installment purchase agreement	-	-	200,000	200,000	-
Grant revenue	142,371	-	-	142,371	-
Principal and interest paid on long-term debt	(5,570,832)	-	(489,473)	(6,060,305)	(5,386,608)
Asset constructed for customer - Net of repayments	636,000	-	-	636,000	(2,682,000)
Proceeds from sale of fixed assets	28,789	-	-	28,789	46,521
Purchase of capital assets - Net of reimbursements	(2,875,886)	(506,510)	(610,445)	(3,992,841)	(7,529,638)
Net cash used in capital and related financing activities	(7,639,558)	(506,510)	(899,918)	(9,045,986)	(15,551,725)
Cash Flows from Investing Activities - Interest received on investments	1,050,754	169,419	182,201	1,402,374	1,345,704
Net Increase (Decrease) in Cash and Cash Equivalents	504,122	775,506	(16,610)	1,263,018	(10,965,146)
Cash and Cash Equivalents - Beginning of year	14,821,924	437,674	1,377,277	16,636,875	27,602,021
Cash and Cash Equivalents - End of year	<u>\$ 15,326,046</u>	<u>\$ 1,213,180</u>	<u>\$ 1,360,667</u>	<u>\$ 17,899,893</u>	<u>\$ 16,636,875</u>
Reconciliation to Statement of Net Assets					
Cash and investments	\$ 2,038,292	\$ 1,049,586	\$ 93,975	\$ 3,181,853	\$ 457,741
Restricted assets	13,287,754	163,594	1,266,692	14,718,040	16,179,134
Total	<u>\$ 15,326,046</u>	<u>\$ 1,213,180</u>	<u>\$ 1,360,667</u>	<u>\$ 17,899,893</u>	<u>\$ 16,636,875</u>

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Cash Flows (Continued)

	Year Ended September 30				
	2007				2006
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ 2,242,981	\$ 269,075	\$ (178,875)	\$ 2,333,181	\$ (509,680)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation/Amortization	4,486,151	543,018	600,124	5,629,293	5,530,611
Changes in assets and liabilities:					
Receivables	(218,474)	(138,869)	(115,207)	(472,550)	(1,031,723)
Inventory	(726,408)	(16,134)	(28,397)	(770,939)	956,598
Prepaid insurance and other current assets	(17,568)	(12)	(48,112)	(65,692)	(9,906)
Accounts payable	1,140,958	67,048	199,550	1,407,556	(1,531,010)
Accrued and other liabilities	22,195	213,617	(37,189)	198,623	101,072
Due to City of Wyandotte	-	725,642	-	725,642	(254,021)
Deferred revenue	-	-	(12,336)	(12,336)	(12,336)
Customer deposits and other current liabilities	(48,273)	-	(17,875)	(66,148)	1,270
Net cash provided by operating activities	<u>\$ 6,881,562</u>	<u>\$ 1,663,385</u>	<u>\$ 361,683</u>	<u>\$ 8,906,630</u>	<u>\$ 3,240,875</u>

Noncash Capital and Related Financing Activities - Water Fund - During the years ended September 30, 2007 and 2006, \$156,452 and \$81,680, respectively, of asset additions were contributed to the Department.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2007

Note 1 - Nature of Entity

The Department of Municipal Service (the "Department") is a department created by the City of Wyandotte, Michigan (the "City") that is governed and operated independently from the City by the Municipal Service Commission (the "Commission"). The Commission provides electric, water, cable television, and Internet services to users in the City and accounts for these activities in separate funds.

The funds of the Department are included in the basic financial statements of the City at September 30, 2007.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Department conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Department has elected not to apply private sector standards issued after December 31, 1989.

As a general rule, the effect of interfund activity has been eliminated from the financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements **September 30, 2007**

Note 2 - Summary of Significant Accounting Policies (Continued)

The operating revenue represents billings to customers based primarily on usage by the Department's customers. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets

Cash Equivalents - Cash equivalents consist of highly liquid investments with an original maturity of three months or less, including certificates of deposit, government investment pools, and other cash management funds. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are reported at fair value, based on quoted market prices.

Inventories - Inventories are stated at the lower of cost, determined by the average cost method for general inventory and determined by the first-in, first-out method for coal inventory, or market.

Significant Customers - The Electric Department has three significant customers: BASF Corporation, Wayne County, and Wyandotte Hospital, representing approximately 14 percent, 5 percent, and 5 percent, respectively, of the Electric Department's operating revenue for the year ended September 30, 2007.

The Water Department has four significant customers: BASF Corporation, the Department of Municipal Service's electric department, Wayne County, and Wyandotte Hospital, representing approximately 10 percent, 7 percent, 3 percent, and 2 percent, respectively, of the Water Department's operating revenue for the year ended September 30, 2007.

Property, Plant, and Equipment - Property, plant, and equipment are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation is charged as an expense against the operations of the Department on a straight-line basis. No depreciation expense has been recorded for amounts reflected as construction in progress.

Deferred Revenue - Deferred revenue relates to a contract in the Cable Television Fund between the Department and Wyandotte Public Schools related to construction and usage of the Department's fiber optic cable system. Monies received in advance will be recognized over the term of the contract.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements
September 30, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Pension Plan - The Department has a defined benefit retirement plan covering substantially all permanent, full-time employees through participation in the City of Wyandotte Employees' Retirement System. Annual retirement expense includes a provision for funding prior service costs in excess of fund assets on the basis of funding such excess over a remaining period of 10 years as of September 2007. The Department's policy is to fund retirement cost accrued.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Emissions Allowance - The Environmental Protection Agency has granted emission allowances to the Department related to the emission of certain pollutants. No amounts are recorded at the date of the grant. The Department estimates the allowances needed for future years. As appropriate, the Department may purchase additional allowances or sell the estimated future excess allowances. The purchase and sale of allowances by emission type is accounted for separately and is not offset against transactions involving allowances of different emission types. Purchased allowances net of proceeds from the sale of related allowances are recorded as an asset and will be expensed during the applicable period. Proceeds from the sale of allowances are recognized as income at the time of sale.

There were no purchases or significant sales of allowances in the current year.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 3 - Deposits and Investments (Continued)

The Department has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Department's deposits and investment policies are in accordance with statutory authority.

The Department's cash and investments are subject to two types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. The Department does not have a deposit policy for custodial credit risk. At year end, the Department had \$2,063,332 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Department evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Department has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pools	\$ 17,953,945	Aaa	Moody's

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 4 - Billed and Unbilled Accounts Receivable

Billed accounts receivable, net of allowance for uncollectible accounts, are as follows:

	2007				2006
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Accounts receivable	\$ 2,397,529	\$ 215,583	\$ 504,100	\$ 3,117,212	\$ 2,888,272
Less allowance for uncollectible accounts	(220,883)	(586)	(18,308)	(239,777)	(173,387)
Net accounts receivable	<u>\$ 2,176,646</u>	<u>\$ 214,997</u>	<u>\$ 485,792</u>	<u>\$ 2,877,435</u>	<u>\$ 2,714,885</u>

Unbilled accounts receivable represent services that have been provided to customers through September 30, 2007 for which billings were processed subsequent to year end.

During the year ended September 30, 2006, the Department entered into an agreement with a customer related to the construction of an asset. Under the terms of the agreement, the Department used proceeds from the 2005A Revenue Bonds to construct a steam line that is currently being used by the customer. The customer agreed to reimburse the Department for 50 percent of the debt service costs of the bond. Varying monthly payments will be made by the customer through December 31, 2010. The Department has recorded accounts receivable and reduced the cost underlying asset for the principal reimbursements. Interest reimbursements are offset against interest expense when received. During the current year, the Department received \$805,950 from the customer: \$636,000 for debt principal reimbursements which reduced accounts receivable and \$169,950 for interest which reduced interest expense. At September 30, 2007, the outstanding balance related to this agreement is \$2,046,000, of which \$636,000 is recorded as current account receivable.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 5 - Property, Plant, and Equipment

	Balance October 1, 2006	Additions	Disposals and Adjustments	Balance September 30, 2007
Capital assets being depreciated:				
Utility plant	\$ 96,287,516	\$ 5,124,845	\$ 204,736	\$ 101,207,625
Transmission	5,797,768	114,804	-	5,912,572
Pumping	2,150,289	183,167	-	2,333,456
Purification	4,151,834	1,359,689	10,240	5,501,283
Distribution	36,317,561	277,494	79,932	36,515,123
Transportation	1,580,909	-	-	1,580,909
Stores	779,538	5,807	-	785,345
Cable equipment	1,245,549	72,960	-	1,318,509
Studio	472,895	29,547	-	502,442
General	3,729,090	234,185	-	3,963,275
Construction in progress	3,890,103	504,730	3,553,197	841,636
Total capital assets being depreciated	156,403,052	7,907,226	3,848,105	160,462,173
Accumulated depreciation:				
Utility plant	58,559,953	3,488,242	-	62,048,195
Transmission	4,457,524	170,035	-	4,627,559
Pumping	1,062,023	149,452	-	1,211,475
Purification	3,088,973	100,340	-	3,189,313
Distribution	23,110,878	1,343,258	10,240	24,443,896
Transportation	1,232,228	98,382	79,932	1,250,678
Stores	620,115	39,661	-	659,776
Cable equipment	830,992	150,617	-	981,609
Studio	439,234	11,466	-	450,700
General	2,523,991	77,840	-	2,601,831
Total accumulated depreciation	95,925,911	5,629,293	90,172	101,465,032
Net capital assets being depreciated	\$ 60,477,141	\$ 2,277,933	\$ 3,757,933	\$ 58,997,141

Depreciation of \$4,486,151 and \$4,524,536 for the Electric Fund, \$543,018 and \$508,659 for the Water Fund, and \$600,124 and \$497,416 for the Cable Television Fund has been included in operating expenses of the appropriate fund for the years ended September 30, 2007 and 2006, respectively.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 5 - Property, Plant, and Equipment (Continued)

Construction Commitments - At year end, the Department has active construction projects. The projects include an automated meter reading system, wind turbine, and substation nine. Commitments with contractors in which the Department expects to utilize bond proceeds are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Automated meter reading system (1)	\$ 685,759	\$ 2,146,417
Wind turbine (2)	<u>144,452</u>	<u>155,548</u>
Total	<u>\$ 830,211</u>	<u>\$ 2,301,965</u>

- 1) Funded with bond proceeds
- 2) Funded by grants and other sources

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 6 - Long-term Debt

Outstanding Debt

Long-term debt outstanding is as follows:

	2007			2006
	Electric	Cable		
	Fund	Television	Total	Total
	Fund	Fund		
1992 Revenue Refunding Bonds - Net of unamortized discount and deferred refunding credit	\$ 5,260,000	\$ -	\$ 5,260,000	\$ 7,660,000
2002 Revenue Refunding Bonds - Net of unamortized premium and deferred refunding charge	30,018,694	-	30,018,694	30,225,370
1998 installment purchase agreement	-	1,541,531	1,541,531	1,916,531
2005A Revenue Bonds - Net of unamortized premium	5,483,850	-	5,483,850	6,094,338
2005B Revenue Bonds - Net of unamortized premium	7,487,525	-	7,487,525	7,488,269
2007 installment purchase agreement	-	163,236	163,236	-
Less current portion	(3,895,000)	(413,315)	(4,308,315)	(3,850,000)
Less portion payable from restricted assets	(3,475,000)	-	(3,475,000)	(3,315,000)
Total long-term debt - Net of current portion and amount payable from restricted assets	<u>\$ 40,880,069</u>	<u>\$ 1,291,452</u>	<u>\$ 42,171,521</u>	<u>\$ 46,219,508</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 6 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Department for the years ended September 30, 2007 and 2006:

	2005 Series A Electric System Revenue Bonds (Net of Premium)	2005 Series B Electric System Revenue Bonds (Net of Premium)	2002 Revenue Refunding Bonds (Net of Premium and Deferred Refunding Charge)	1992 Revenue Refunding Bonds (Net of Discount and Deferred Refunding Credit)	1998 Cable Installment Purchase Agreement	2007 Cable Installment Purchase Agreement	Total
Long-term debt - October 1, 2005	\$ 6,104,826	\$ 7,489,013	\$ 30,422,046	\$ 9,920,000	\$ 2,291,531	\$ -	\$ 56,227,416
Debt retired	-	-	(305,000)	(2,260,000)	(375,000)	-	(2,940,000)
Deferred charge on refunding	-	-	167,916	-	-	-	167,916
Premium (discount) amortization	(10,488)	(744)	(59,592)	-	-	-	(70,824)
Long-term debt - September 30, 2006	6,094,338	7,488,269	30,225,370	7,660,000	1,916,531	-	53,384,508
Debt issued	-	-	-	-	-	200,000	200,000
Debt retired	(600,000)	-	(315,000)	(2,400,000)	(375,000)	(36,764)	(3,726,764)
Deferred charge on refunding	-	-	167,916	-	-	-	167,916
Premium (discount) amortization	(10,488)	(744)	(59,592)	-	-	-	(70,824)
Long-term debt - September 30, 2007	\$ 5,483,850	\$ 7,487,525	\$ 30,018,694	\$ 5,260,000	\$ 1,541,531	\$ 163,236	\$ 49,954,836

Debt Service Requirements - The annual total principal and interest requirements to service all debt outstanding as of September 30, 2007, excluding unamortized discount premiums on bonds payable, and deferred refunding charges are as follows:

Years Ending	2005 Electric Revenue Bonds (Series A&B)				2002 Electric Fund Refunding Bonds		1992 Electric Fund Refunding Bonds		1998 Cable Installment Purchase Agreement		2007 Cable Installment Purchase Agreement		Total
Sept. 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2008	\$ 600,000	\$ 200,400	\$ -	\$ 305,050	\$ 325,000	\$ 1,471,651	\$ 2,550,000	\$ 169,375	\$ 375,000	\$ 60,998	\$ 38,315	\$ 6,036	\$ 6,101,825
2009	600,000	179,400	250,000	296,300	335,000	1,459,926	2,710,000	-	375,000	45,360	39,932	4,420	6,295,338
2010	600,000	159,000	300,000	285,800	2,835,000	1,355,031	-	-	375,000	29,722	41,617	2,735	5,983,905
2011	600,000	138,000	350,000	272,675	2,945,000	1,241,649	-	-	375,000	14,085	43,372	979	5,980,760
2012	600,000	111,000	400,000	257,675	3,050,000	1,119,649	-	-	41,531	1,179	-	-	5,581,034
2013-2017	2,400,000	156,000	2,625,000	951,375	17,510,000	3,071,275	-	-	-	-	-	-	26,713,650
2018-2022	-	-	2,125,000	483,200	4,075,000	-	-	-	-	-	-	-	6,683,200
2023-2027	-	-	1,425,000	60,563	-	-	-	-	-	-	-	-	1,485,563
Total	\$ 5,400,000	\$ 943,800	\$ 7,475,000	\$ 2,912,638	\$ 31,075,000	\$ 9,719,181	\$ 5,260,000	\$ 169,375	\$ 1,541,531	\$ 151,344	\$ 163,236	\$ 14,170	\$ 64,825,275

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2007

Note 6 - Long-term Debt (Continued)

Interest - For the years ended September 30, 2007 and 2006, total interest costs of \$2,263,062 and \$2,570,748, respectively, were incurred in the Electric Fund. For the years ended September 30, 2007 and 2006, total interest costs of \$77,709 and \$85,764, respectively, were incurred in the Cable Fund.

Electric Fund Revenue Bonds - The 1992 and the 2002 Electric Revenue Refunding Bonds and the 2005 Series A and B Revenue Bonds are payable out of the net revenue of the Electric Fund. The City of Wyandotte, Michigan has no liability for these bonds if the net revenue pledged should prove insufficient.

An agreement has been entered into with BASF for steam service related to the 2005 Revenue Bonds. This agreement provides for reimbursement to the Department for one-half of the principal and associated interest of the 2005 Electric Revenue Bonds (Series A) actually used by the Department to fund the construction of the steam expansion project through 2010.

The revenue bond ordinance contains certain covenants and provisions that, among other matters, relate to the following:

- Segregation of proceeds of the revenue bond issue
- Segregation of Electric Fund revenue
- Segregation of assets for debt service payments
- Segregation of assets for construction of improvements to the system
- Periodic transfers of net revenue to those funds segregated for debt service payments
- Sale, lease, or other disposition of all or any substantial part of the system
- Establishment of rates sufficient to provide for required level of debt service coverage
- Adoption of and adherence to budgeted operation and maintenance expenses

Included in the current assets of the Electric Fund at September 30, 2007 and 2006 is approximately \$268,000 and \$255,000, respectively, earmarked for future repairs of the system pursuant to the ordinance. Also included in the current liabilities of the Electric Fund at September 30, 2007 is that portion of the bond principal that was to be transferred within the next year to the Bond and Interest Redemption Fund for payment of bond principal.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 6 - Long-term Debt (Continued)

The following represents maturity schedules of the outstanding bonds payable:

	Interest		Amount of	Principal Outstanding	
	Rate	Date of	Annual		
	(Percent)	Maturity	Maturity	2007	2006
Amount of issue - \$61,185,000					
Date of issue - April 1, 1992					
*Amounts were defeased in 2002					
	6.25	10/01/06	\$ 2,400,000	\$ -	\$ 2,400,000
	6.25	10/01/07	2,550,000	2,550,000	2,550,000
	6.25	10/01/08	2,710,000	2,710,000	2,710,000
	6.25	10/01/09	2,875,000	*	*
	6.25	10/01/10	3,060,000	*	*
	6.25	10/01/11	3,245,000	*	*
	6.25	10/01/12	3,455,000	*	*
	6.25	10/01/13	3,665,000	*	*
	6.25	10/01/14	3,900,000	*	*
	6.25	10/01/15	4,140,000	*	*
	6.25	10/01/16	4,400,000	*	*
	6.25	10/01/17	4,675,000	*	*
Total				<u>\$ 5,260,000</u>	<u>\$ 7,660,000</u>
Amount of issue - \$31,990,000					
Date of issue - July 9, 2002					
	3.25	10/01/06	\$ 315,000	\$ -	\$ 315,000
	3.25	10/01/07	325,000	325,000	325,000
	3.50	10/01/08	335,000	335,000	335,000
	3.70	10/01/09	2,835,000	2,835,000	2,835,000
	3.85	10/01/10	2,945,000	2,945,000	2,945,000
	4.00	10/01/11	3,050,000	3,050,000	3,050,000
	4.10	10/01/12	3,180,000	3,180,000	3,180,000
	5.38	10/01/13	3,305,000	3,305,000	3,305,000
	5.38	10/01/14	3,485,000	3,485,000	3,485,000
	5.38	10/01/15	3,670,000	3,670,000	3,670,000
	5.38	10/01/16	3,870,000	3,870,000	3,870,000
	5.38	10/01/17	4,075,000	4,075,000	4,075,000
Total face value				31,075,000	31,390,000
Unamortized premium - Net of deferred refunding charge				<u>(1,056,306)</u>	<u>(1,164,630)</u>
Net				\$ 30,018,694	\$ 30,225,370

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 6 - Long-term Debt (Continued)

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding 2007	Principal Outstanding 2006
Amount of issue - \$6,000,000					
Date of issue - August 10, 2005					
	3.25	10/01/06	\$ 600,000	\$ -	\$ 600,000
	3.25	10/01/07	600,000	600,000	600,000
	3.50	10/01/08	600,000	600,000	600,000
	3.40	10/01/09	600,000	600,000	600,000
	3.50	10/01/10	600,000	600,000	600,000
	4.50	10/01/11	600,000	600,000	600,000
	5.00	10/01/12	600,000	600,000	600,000
	5.00	10/01/13	600,000	600,000	600,000
	4.50	10/01/14	600,000	600,000	600,000
	4.00	10/01/15	600,000	600,000	600,000
Total face value				5,400,000	6,000,000
Unamortized premium				83,850	94,338
Net				<u>\$ 5,483,850</u>	<u>\$ 6,094,338</u>
Amount of issue - \$7,475,000					
Date of issue - September 1, 2005					
	3.50	10/01/08	\$ 250,000	\$ 250,000	\$ 250,000
	3.50	10/01/09	300,000	300,000	300,000
	3.75	10/01/10	350,000	350,000	350,000
	3.75	10/01/11	400,000	400,000	400,000
	4.00	10/01/12	500,000	500,000	500,000
	4.50	10/01/13	525,000	525,000	525,000
	4.00	10/01/14	575,000	575,000	575,000
	4.50	10/01/15	650,000	650,000	650,000
	4.00	10/01/16	375,000	375,000	375,000
	4.00	10/01/17	400,000	400,000	400,000
	4.00	10/01/18	400,000	400,000	400,000
	4.00	10/01/19	425,000	425,000	425,000
	4.13	10/01/20	450,000	450,000	450,000
	4.15	10/01/21	450,000	450,000	450,000
	4.25	10/01/22	475,000	475,000	475,000
	4.25	10/01/23	475,000	475,000	475,000
	4.25	10/01/24	475,000	475,000	475,000
Total face value				7,475,000	7,475,000
Unamortized premium				12,525	13,269
Net				<u>\$ 7,487,525</u>	<u>\$ 7,488,269</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 6 - Long-term Debt (Continued)

Cable Television Fund 1998 Installment Purchase Contract - In October 1998, the Department entered into a limited tax general obligation installment purchase contract for the purpose of financing the purchase and installation of a fiber optic cable network for the Department's cable television system. The Department was authorized to borrow up to \$4,500,000 in accordance with the terms of the contract (at closing date of the borrowing in April 2001, the final contract amount was \$3,994,031). Beginning in May 1999, interest-only payments at a rate of 4.16 percent per annum are due semiannually with principal payments due as follows:

The installment liabilities are general obligations of the City of Wyandotte and the City would be held responsible should the revenue of the Cable Television Fund prove insufficient to retire the obligations.

		Amount of	Principal Outstanding	
	Date of	Annual		
	Maturity	Maturity	2007	2006
Amount of contract - \$3,994,031				
Date of issue - October 16, 1998				
Interest rate - 4.16%				
	11/01/06	\$ 187,500	\$ -	\$ 187,500
	05/01/07	187,500	-	187,500
	11/01/07	187,500	187,500	187,500
	05/01/08	187,500	187,500	187,500
	11/01/08	187,500	187,500	187,500
	05/01/09	187,500	187,500	187,500
	11/01/09	187,500	187,500	187,500
	05/01/10	187,500	187,500	187,500
	11/01/10	187,500	187,500	187,500
	05/01/11	187,500	187,500	187,500
	11/01/11	187,500	41,531	41,531
Total			\$ 1,541,531	\$ 1,916,531

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 6 - Long-term Debt (Continued)

Cable Television Fund 2007 Installment Purchase Contract - The Department entered into a shared installment purchase contract with the City of Wyandotte for the purpose of financing the purchase of computer software and equipment. Total Department borrowings under the contract were \$200,000. Payments of \$3,696 are due monthly including at 4.14 percent through September 2011. During the current year, the Department remitted \$44,351 to the City related to the agreement, of which \$36,764 was applied to the principal and the remaining \$7,587 represents interest expense.

Note 7 - Restricted Assets

Certain assets are restricted pursuant to Commission resolution. When an expense is incurred that allows the use of restricted assets (such as bond debt principal and interest), those assets are applied before utilizing any unrestricted assets.

Restricted assets consist of the following:

	2007				2006
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Bond proceeds	\$ 2,060,500	\$ -	\$ -	\$ 2,060,500	\$ 3,543,689
Debt service	9,188,005	-	1,103,098	10,291,103	10,382,451
Capital improvements	1,218,938	-	-	1,218,938	1,160,504
Retiree health care	820,311	163,594	163,594	1,147,499	1,092,490
Total restricted assets	13,287,754	163,594	1,266,692	14,718,040	16,179,134
Less accrued interest payable from restricted assets	(1,200,592)	-	-	(1,200,592)	(1,290,454)
Net restricted assets	<u>\$ 12,087,162</u>	<u>\$ 163,594</u>	<u>\$ 1,266,692</u>	<u>\$ 13,517,448</u>	<u>\$ 14,888,680</u>

The Electric Fund assets restricted for debt service are pursuant to the 1992 revenue bond ordinance for revenue bond debt service. In conjunction with the bond ordinance, the Commission passed a resolution to reserve retained earnings in the Electric Fund of \$4,373,529, which represents 125 percent of the average annual debt service requirement for all outstanding bonds.

Assets have also been restricted in the Electric Fund for future capital improvements and to assist in paying future bond principal and interest payments pursuant to a resolution approved by the Commission.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 7 - Restricted Assets (Continued)

Assets have been restricted in the Cable Fund to assist in paying future principal and interest payments on the installment purchase contract.

In the Electric, Water, and Cable Funds, monies have been restricted to pay future retiree healthcare costs, pursuant to a resolution approved by the Commission.

In the Electric Fund, the Commission pursuant to a resolution authorized the creation of a restricted account for environmental expenses. At September 30, 2007, no monies have been transferred.

Note 8 - Pension Plans

Defined Benefit Pension Plan

Plan Description - The Department participates in the City of Wyandotte Employees' Retirement System, a defined benefit pension plan that covers all employees of the City hired before October 1, 2006. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The City of Wyandotte Employees' Retirement System's financial report (which includes financial statements and required supplementary information for the system) is presented in the City of Wyandotte's September 30, 2007 annual financial report, which may be obtained at the City offices at 3131 Biddle Avenue.

At September 30, 2006, the date of the Department's most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	73
Terminated employees entitled to benefits but not yet receiving them	19
Current active employees	102

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Department's collective bargaining unit and City ordinance. Effective October 1, 1994, employee contributions are no longer required. For the year ended September 30, 2007, the Department's contribution was approximately \$808,000 for the plan, which was equal to the Department's required and actual contribution.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 8 - Pension Plans (Continued)

Three-year Trend Information

Funding information for the Department's participation in the pension plan for the fiscal years ended September 30 is as follows:

	2007	2006	2005
Annual pension cost (APC)	\$ 808,000	\$ 657,000	\$ 720,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Additional Information - The Department's 2007 contribution represented approximately 25 percent of total contributions required of all participating entities. The assets of the entire system can be called upon to satisfy the obligations of any particular division since the system is ultimately a Citywide PERS. The valuation payroll for all employees covered by the system for the year ended September 30, 2006 (the date of the most recent actuary report) was approximately \$9,828,000. The Department's covered payroll was approximately \$5,993,000.

Defined Contribution Pension Plan

Plan Description - The Department provides pension benefits that cover all employees of the Department hired on or after October 1, 2006 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by a Commission-approved resolution, the Department contributes 10 percent of gross earnings and the employees contribute 5 percent. New employees' accounts are fully vested after five years of service. Employees who choose to switch from the defined benefit plan to the defined contribution plan will be vested immediately. At September 30, 2007, there were five employees in the defined contribution plan; none were previously enrolled in the defined benefit plan.

The Department's total payroll during the current year covering this group of employees was \$61,150. The current year contribution was calculated based on covered payroll in the same amount, resulting in an employer contribution of \$6,115. Department employee contributions were \$3,057.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 9 - Related Party Transactions

City-owned facilities are users of Department electric and water services. The Department includes its revenue charges from the sale of such services. Pursuant to the revenue bond ordinance, the Department charges the City for street and public safety lighting services. In turn, the City has charged the Department an equal amount for services in lieu of property taxes. In 2006, the Department also began paying the City a fee for use of City services (i.e., police and fire protection, etc.) and infrastructure. The Department also provides billing and cash collection services for the City's sewer use charges, which are then remitted to the City upon collection. The Department earns a related collection fee for these services.

Included in the Department's expenses is a franchise fee payable to the City equal to 8 percent of the gross revenue of the Cable Television Fund for each of the years ended September 30, 2007 and 2006.

A summary of these transactions with the City for the years ended September 30, 2007 and 2006 is as follows:

	2007	2006
Department revenue:		
Electric and water services	\$ 578,878	\$ 540,907
Street and public safety lighting	466,151	436,477
Collection fee	82,648	86,086
Department expenses:		
In lieu of property taxes	(466,151)	(436,477)
Cable television franchise fee	(494,586)	(460,034)
City services	(250,000)	(200,000)
Installment purchase agreement payment	(44,351)	-
Remittances to City for sewer use charge collections	(2,500,000)	(3,400,000)
Payable to City of Wyandotte - Sewage Disposal Fund	(1,138,510)	(412,868)
Water mains contributed by the City	156,453	81,680

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2007

Note 10 - Risk Management

The Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Department has purchased commercial insurance for claims related to general liability and medical benefits. The Department is partially uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Workers' Compensation - All claims incurred are the responsibility of the Department up to \$850,000 per employee (in the case of disease) or \$850,000 per accident (for bodily injury). The Department has purchased commercial insurance coverage for claims incurred, which exceed the amounts previously described.

The Department estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Department's Electric Fund, Water Fund, and Cable Television Fund.

Changes in the estimated liability were as follows:

Estimated liability - October 1, 2005	\$ 556,696
Estimated claims incurred, including changes in estimates	(87,301)
Claim payments	<u>38,224</u>
Estimated liability - September 30, 2006	507,619
Estimated claims incurred, including changes in estimates	(25,917)
Claim payments	<u>3,269</u>
Estimated liability - September 30, 2007	<u>\$ 484,971</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2007

Note 11 - Contingencies

In March 2005, United Skilled Trades, Inc. (UST) filed a suit against the Department and others. UST alleged that it was owed money from the Department for services rendered pursuant to a contract for repair of a turbine. UST alleged that the Department is indebted to them in the amount of \$1,100,000. The Department vigorously defended its position that no material amounts were due to UST. On February 21, 2008, the Department received a decision in the case. The Court's verdict denied most of the claims of UST but did award two of their claims. The Court also ordered that any monies owing UST from this award be reduced by the Department's legal fees and other applicable costs. Management's estimate of the liability due UST as a result of this decision has been recorded in the financial statements of the Electric Fund as of September 30, 2007.

The Department also continues to be involved in various contingent matters arising in the normal course of operations. While insurance coverage and other potential remedies are available in certain circumstances to varying degrees, no opinion can currently be given as to the ultimate outcome of these matters. No provision has been made for the ultimate liability, if any, that may result from the resolution of these matters.

Note 12 - Bond Issuance Costs

During the years ended September 30, 2005 and 2002, the Department incurred bond issuance costs in the amount of \$517,983 and \$931,515, respectively. The 2005 bond issuance costs related to new debt issuances (Series 2005A and 2005B) and the 2002 bond issuance costs related to the 2002 revenue refunding bonds. Amortization expense for the 2002 revenue refunding amounted to \$62,100 for the years ended September 30, 2007 and 2006. Amortization expense for the 2005 revenue bonds amounted to \$37,848 for the year ended September 30, 2007 and 2006.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2007

Note 13 - Postemployment Benefits

The Department provides healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 73 retirees are eligible. The Department includes pre-Medicare retirees and their dependents in its insured healthcare plan, with some contribution required by most participants, depending upon employee group classifications. The Department purchases Medicare supplemental insurance for retirees eligible for Medicare. Net expenditures for postemployment healthcare benefits are recognized in the Electric and Water Funds as the insurance premiums become due; this amounted to approximately \$350,000 and \$66,000, respectively, during the year ended September 30, 2007 and \$368,000 and \$68,000, respectively, during the year ended September 30, 2006.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending September 30, 2009.

February 29, 2008

To the Municipal Service Commission
City of Wyandotte Department
of Municipal Service
3005 Biddle Avenue
Wyandotte, MI 48192

Members of the Municipal Service Commission:

We have recently completed our audit of the financial statements of the Department for the year ended September 30, 2007. As a result of our audit, we offer the following comments and recommendations for the Department's consideration in several areas of both an operations and internal control nature. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Commission and others within the organization.

Electric Fund

Operating Results

The Department's bond ordinance specifies that the Department's Electric Fund budget provide net revenue that equals or exceeds 110 percent of the annual debt service requirement. The ratio that measures the relationship between the Department's net revenue and its annual debt service requirement is known as the "debt service coverage ratio." While the 110 percent debt service coverage ratio test is prospective, it is important that the Department's actual results yield net revenue that equals or exceeds 110 percent of the annual debt service requirement. The actual debt service coverage ratio for the year exceeded 110 percent (approximately 139 percent for the year ended September 30, 2007). Another financial covenant in the Department's bond ordinance requires that actual expenses of the Electric Department do not exceed budget. The Department had to amend its budget in order to comply with this ordinance. The substantial improvement in the debt service ratio calculation as compared to the prior year (81 percent for the year ended September 30, 2006) was due primarily to a significant increase in the power supply recovery charge in the current year.

In 2005 and 2006, the Electric Fund had operating losses of approximately \$1,106,000 and \$642,000, respectively, but in 2007 reported operating income of approximately \$2,243,000. As described in the preceding paragraph, the improved operating results were primarily due to an increase in the power supply recovery charge which totaled approximately \$8,210,000 for the year ended September 30, 2007 (compared to approximately \$2,485,000 in 2006). The increase in the power supply recovery charge helped offset increases in power production costs and recover past under-recoveries of increased power production costs. Despite the improved operating results, the Department continues to have difficulty in maintaining a healthy level of working capital to finance operations. We encourage the Department to continue to closely monitor the operating performance of the Electric Fund with special emphasis on its power production and fuel costs, particularly in light of the continuing rate and operating expense covenants. The Department has historically reviewed these matters more closely midway through the year to determine the need for adjustments, if any. We encourage the Department to continue this practice.

Reserves and Long-term Planning

In the past, the Department established reserves within the Electric Fund to call bonds and to fund future capital improvements. In the current year, a reserve was established for environmental purposes but was not funded. The capital improvement account has a balance of approximately \$1,219,000 restricted for this purpose at September 30, 2007 (which is net of \$800,000 used in 2006 and \$1,000,000 used in 2005 for operating costs). While the Department did not use any of the capital improvement monies in 2007 to fund operations, working capital is still at a very low level (because of the operating losses incurred in 2005 and 2006). We strongly recommend that creating an appropriate level of working capital (i.e., excess operating cash) and reserves for specific purposes (i.e., capital, etc.) be a principal objective of the Department over the next several years.

We understand that the Department continues to work with its consulting engineer on reviewing the Electric Department's forecasted operating costs, capital spending on a multiyear basis, regulatory changes (i.e., mandated emission improvements), and the impact of the above on customer rates. We also understand that there are several large projects that may require completion or be undertaken (i.e., new substation serving a large customer, wind turbines, etc.). The Department's current working capital position is not adequate to fund these projects. Along with the re-establishment of adequate working capital levels, consideration should also be given to the funding of these projects in the Department's multiyear planning.

Bonding and Capital Projects

In 2005, the Department issued Series A and Series B Revenue Bonds to finance several capital projects. At September 30, 2007, bond proceeds remain for the Automated Meter Reading System. We encourage the Department to review planned spending for the project and the remaining bond proceeds to ensure sufficient funding is available for the project. The Department did have its bond counsel complete an arbitrage calculation on the Series B issue this year. The report from the bond counsel disclosed a small liability and recommended that an updated calculation be performed when spending was completed.

In conjunction with the issuance of the Series A revenue bonds, the Department entered into an agreement with a large customer to provide steam service through 2010 (and perhaps future years). Under the terms of the agreement, the Department will be recovering 50 percent of the total debt service on the Series A bonds over the initial five-year period (through 2010). These payments will significantly help the Department make the required debt service payments on the bonds for the first five years. If the customer does not extend the contract beyond the initial period, the Department's cash available for operations and debt service will be significantly impacted. We encourage the Department to continue to work with its consulting engineer and rate consultant to ensure that the terms of this agreement are considered when reviewing future rates.

Water Fund

Operating Results

The financial performance of the Water Fund remained stable in the current year. The Water Fund's working capital and current ratio have improved substantially since 2004 (when the Water Fund reported a deficit). The Water Fund's operating results generated net income of approximately \$269,000 in the current year and unrestricted net assets were approximately \$1,281,000 (compared to approximately \$813,000 and \$60,000 in 2006 and 2005, respectively). The Department has made several rate adjustments to increase the operating revenue and restore working capital in the Water Fund. We compliment the Department for the actions taken in recent years to address the financial condition of the Water Fund. The financial condition of the Water Fund has improved, but the Water Fund still has not generated meaningful working capital reserves to fund capital outlay or other operating needs. Additionally, the Water Fund has remained very reliant on annual capital contributions from the City of Wyandotte Tax Increment Financing Authority to fund water main replacement projects and the Department continues to utilize monies collected on behalf of the City's Sewage Disposal Fund to manage its cash flows. We commend the Department for working with its utility rate consultant to establish future rate adjustments necessary to continue the improvement in the Water Fund's financial condition.

Cable Television Fund

Financial Position and Cable Financing Agreement

In connection with the borrowings on the installment purchase contract for the purpose of constructing the Department's fiber optic cable network, the Commission, by resolution, created a debt retirement account to provide a source of funds to have the option to prepay on the contract in the future. At September 30, 2007, the balance in this account was approximately \$1,104,000. Since these monies have been restricted by the Commission for debt retirement, there are limited monies unrestricted for operations and at September 30, 2007, there was a deficit of approximately \$685,000 in unrestricted net assets (unrestricted net assets at September 30, 2006 were approximately \$323,000). At September 30, 2007, approximately \$1.5 million remains outstanding on the debt issued to install the cable system's current technology in 1998. We continue to encourage the Department to evaluate the investments that will be necessary going forward to keep pace with the market for these services and to continue to consider regulatory and market force changes that are impacting the competitive landscape.

New Required Audit Communications

A new auditing standard, effective December 31, 2006, has resulted in a major change to the communications that we are required to provide following our audit. This new standard requires us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about certain items more formally.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standard as a significant deficiency. The following paragraphs are the requirements of the new auditing standard, SAS 112, and follow the prescribed language contained in the standard.

In planning and performing our audit for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

- Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles. While we have historically recommended adjustments to the Department's general ledger as part of the audit, this qualifies as a material weakness in internal controls over financial reporting. Adjustments recommended in the current year included cash, accounts receivable and customer revenue, installment purchase, and grants. As part of the audit process, there were also other adjustments made by the Department.
- The bank reconciliations for the Department's main operating account were not reconciled to the general ledger during the fiscal year on a timely basis.
- As part of the audit in the past, we have discussed with the Department the assignment of responsibilities and the balance with segregation of duties given the practical considerations of the size of the organization. As you are aware, segregation of duties is an important component to any organization's system of internal control. With the current assignment of responsibilities, the Department's superintendent of finance is responsible for cash management, preparing wire transfers, posting to the general ledger, and performing account reconciliations. As you can imagine, from an internal control perspective, it is desired that these functions be more segregated to allow for more checks and balances. We understand that the Department is reviewing its administrative functions and evaluating its options. We strongly recommend that segregation of duties for internal control purposes be considered as part of this process. Additionally, an alternative staffing arrangement could allow for more frequent periodic internal financial reporting, more financial analysis, and other finance related tasks.

Other Accounting and Control Matters

In addition to the above, we have identified additional matters that we would like to communicate as a result of our audit:

- During our annual inventory observation, we noted a significant number of items in the warehouse that appear to be obsolete. Based on further inquiry with Department personnel, we understand that many of these items will never be used but continue to be included in inventory on an annual basis. Although the inventory value of these items is not significant, we recommend that the Department consider scrapping these items and removing them from inventory so Department personnel does not have to continue to maintain them in the inventory system and so that the Department can realize any remaining value from these items.
- As noted in last year's communication to you, we noted during our testing that the Department produces checks, records payment in the general ledger but will "hold" checks and not send them out in a timely manner. The checks are kept in the Department's safe and sent out when sufficient funds become available. We understand the Department is reviewing this practice.
- During our testing of capital assets and through inquiry with Department personnel, we noted instances where items in the several hundred dollar range were capitalized (which is consistent with the Department's threshold of \$100 for capitalizing fixed asset purchases). We recommend that the Department consider reviewing its capital spending procedure with a focus on the appropriate capitalization threshold and whether the threshold applies on a project basis or individual expenditure basis. There is administrative time involved in tracking and depreciating small items.
- As in the prior year, water loss was approximately 13 percent in 2007. While this is not unreasonably high for a more mature system, we encourage the Department to continue to monitor water loss.
- The Department has not migrated its fixed asset accounting into the HTE system. We continue to encourage a migration of the data from the old system to the new system. At conversion, the Department should consider reviewing all of its fixed asset information to delete any assets from the system that are no longer in use and/or modify useful lives as appropriate. Many organizations use this opportunity to perform a physical inventory of their fixed asset records, resulting in more accurate information for both accounting and insurance purposes.

Requirement to Value Liability for Retiree Health Care - Effective Soon!

The Governmental Accounting Standards Board Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*, will be effective for the Department's year ending September 30, 2009 (disclosures are required in the September 30, 2008 financial statements). The new pronouncement requires governmental organizations to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The Department recently received an initial actuarial valuation of this liability. The actuary estimates that the liability ranges from \$12.6 million to \$18 million (depending on the assumed interest rate). The Department has set aside about \$1.1 million for this purpose, leaving the unfunded liability in the range from \$11.5 million to \$16.9 million.

If the Department funded the obligation on an actuarial basis, the required contribution would range from about \$1.1 million to \$1.3 million for the year ending September 30, 2009. Currently, the Department budgets approximately \$420,000 for retiree healthcare expenses, so funding the liability on an actuarial basis would increase this expense by approximately \$680,000 to \$880,000 annually. If the actuarial required contribution (ARC) is not made by the Department, the difference between the ARC and actual retiree healthcare expenses paid would be recorded as a liability of the Department. This matter will require consideration by the Department later this year as part of its fiscal year 2008/2009 budget.

New Accounting Standard for Pollution Remediation Obligations

The GASB released Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which will be effective for financial periods beginning after December 15, 2007 (for the Department's fiscal year beginning October 1, 2008.) The statement addresses the accounting and disclosure requirements specific to remediation of the detrimental effects of existing pollution, as opposed to pollution prevention or control related to current operations or asset retirement obligations. The statement describes particular events that create an obligation to estimate expected outlays for remediation, lays out typical benchmarks in the remediation process, and requires measurement of the outlays at the current value using the expected cash flow technique. As the Department moves forward, it will need to continue communicating with its engineering firm about any events or conditions that may cause the Department to record a liability related to emissions violations or remediation of existing pollution that has occurred.

Major Auditing Standards Changes

More new rules will become effective for the Department's audit next year. These new rules, which are known collectively as the new Risk Assessment Standards, significantly change the procedures auditors must perform in all financial statement audits. Under these new rules, auditors will be required to:

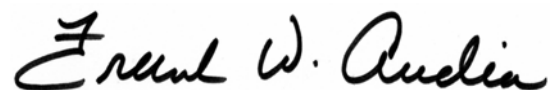
- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, we will need to make more detailed and specific requests for information from the Department, particularly about processes and controls. We have developed tools that the Department can utilize to accumulate the information that the auditing standards presume to exist in your organization regarding your procedures and controls. These changes are a result of the major corporate scandals that have happened and are designed to strengthen the confidence of users of audited financial statements.

We would like to take this opportunity to thank all Department personnel for their cooperation and assistance during the course of the audit.

Very truly yours,

Plante & Moran, PLLC



Frank W. Audia



William E. Brickey